Financial Integration in Africa: Benefits and Safeguards
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Global and regional financial integration can be beneficial.

- **Global integration:** The region needs to safely use foreign saving.
  - SSA needs significantly more private and public capital (infrastructure) than it can afford with its own saving.
  - SSA faces significant demands to provide for health and education of a rapidly growing working-age population.
  - Returns on human and physical capital could be high and foreign investment could be mutually beneficial, especially from countries with wealthy aging populations.

- **Regional integration:** Larger markets, more efficient allocation of capital.
  - Most SSA markets are small, with little competition, and limited economies of scale.
  - Pooling saving and insurance premiums allow a better allocation of risk and scarce financial resources.
  - Managerial capacity in the continent remains low.
But financial integration needs to be done right.

- A safe and sound financial integration that avoids financial crises, excessive risk taking, fraud, and macroeconomic disruptions, requires:
  - Macroeconomic policy frameworks that are resilient to capital flow movements.
  - Prudential systems that can properly manage the cross border risks at the institutional and system wide level.
  - Resolution systems at the institution and systemic level that can contain the damage in case of stress.
- Financial integration in Africa poses more challenges than traditional cross border relations with European banks.
Financial integration: Global actors remain important

Banking groups from Europe and the region operate in many SSA countries.
Financial integration: French Banks

Relevant, but declining footprint
Financial integration: Market based integration resulting from the rapid expansion of Pan-African banks while some of the Pan-African banking groups are expanding rapidly.
Is sub-Saharan Africa prepared for financial integration? Making progress, but not quite there yet.

- Macroeconomic policy frameworks have improved but are not fully resilient to capital flows.
  - Limited capital account liberalization; Capital controls remain prevalent in a large number of countries.
  - Fixed exchange rate regimes helped control inflation, but may be more vulnerable to capital flow changes.
  - Monetary regimes often weak. Countries with flexible exchange rate regimes still strengthening monetary policy frameworks.
- Fiscal buffers in home countries insufficient for large regional expansion.
Financial integration has outpaced improvements in prudential arrangements and macroeconomic policy frameworks:

Some of these banking groups are systemically important in the region, especially Ecobank, Standard Bank, Barclays, and Bank of Africa.

**Systemically Important Subsidiaries**
(Number of subsidiaries with deposit share exceeding 10 percent of the banking system deposits)

Sources: Annual Reports, BankScope, and IMF staff estimates.
Inadequate cross border consolidated supervision in the face of prevalent cross border banking activity is risky

Cross-border coordination and information sharing between home and host supervisors needs to improve.
What needs to be done to draw the full benefits from financial integration in sub-Saharan Africa?

- Continue to build more resilient macroeconomic policy frameworks and adequate buffers to withstand greater capital mobility.

- Improve cross border consolidated supervision.

- Review crisis management, put in place resolution frameworks for a systemic cross border bank.

- In the meantime, financial and capital account liberalization need to be carefully sequenced.
How can the Banque de France help?

- Setting an example in cross border supervision by:
  - Better coordination and information sharing with SSA supervisors.
  - Tailoring sub-Sahara specific meetings of the supervisory colleges of French banks operating in SSA.

- Keep contributing staff for technical assistance in the areas of strengthening macroeconomic frameworks and prudential regulation and supervision.
THANK YOU!